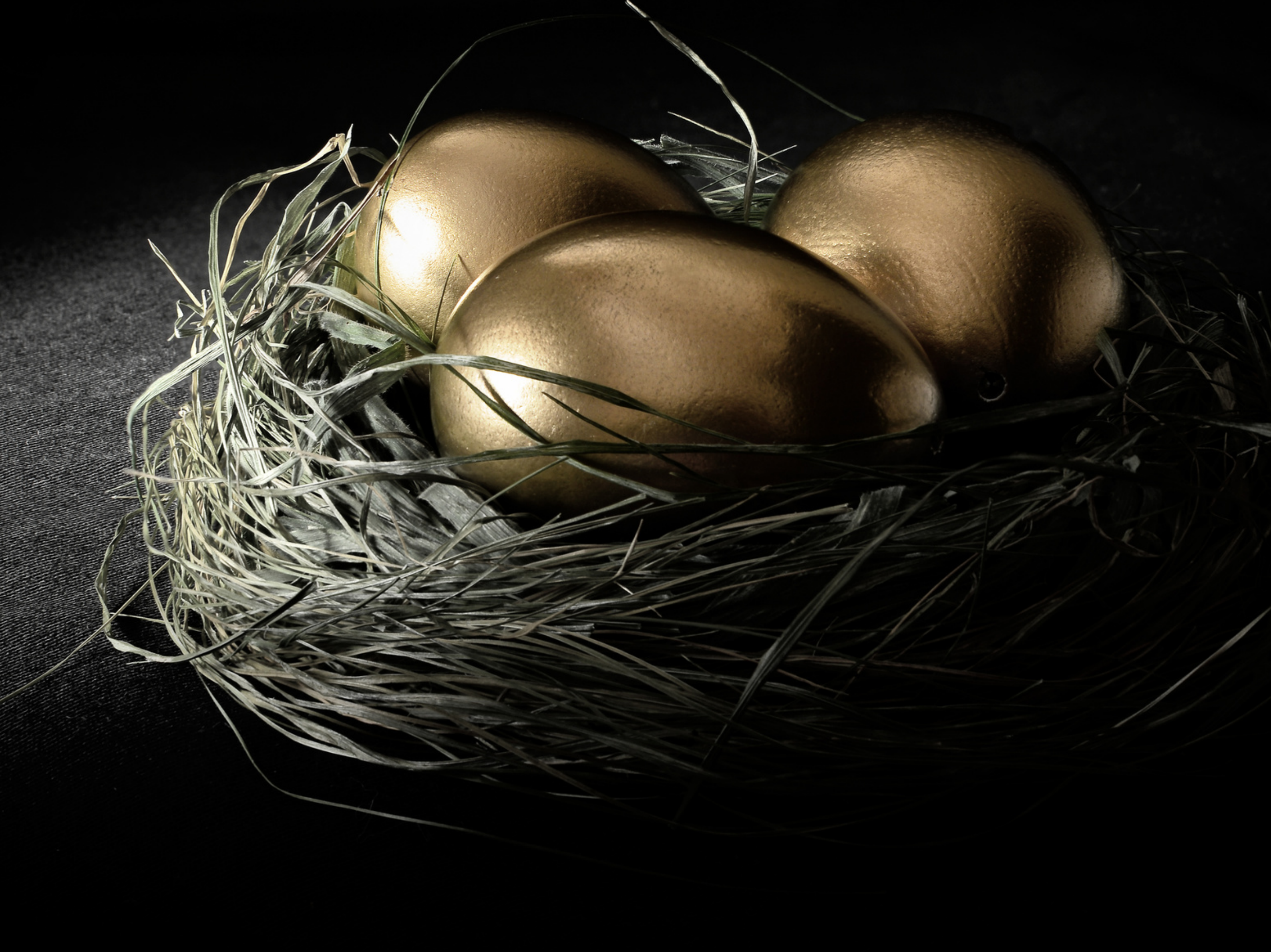
Retirement Planning

Helping you plan for a comfortable future.



Forrester Boyd
CHARTERED ACCOUNTANTS

Retirement isn't what it used to be.

In many ways it is better, people are living longer and enjoying healthier and more active retirement years.

Retirement isn't what it used to be. In many ways it is better; people are living longer and enjoying healthier and more active retirement years.

On the financial side, however, trends are not as positive. For a combination of reasons, the goal of a financially secure retirement is becoming increasingly difficult to achieve. This guide highlights some of the issues you need to consider if you wish to enjoy the comfortable retirement you deserve.

While being able to retire may not be your most important financial objective now, sooner or later it will be at the top of your agenda.

The earlier you focus on your retirement needs and plan for meeting them, the more time you will allow yourself to invest and the more time your investments will have to grow.

Saving enough money for retirement

It's never too early to start planning for your future. When planning for retirement, the truth is that the earlier you start saving and investing, the better off you'll be, thanks to the power of your money compounding over time.

It's like a snowball: the further up the mountain it rolls down from, the more snow it picks up, and the bigger the snowball is by the time it reaches the bottom. Put simply, this is what happens to your money.

If you're concerned about saving enough money for retirement, you're not alone. Even if you began saving late or have yet to begin, it's important to know that you are not alone, and we can discuss with you how you can increase your retirement savings.

There are steps that you can take to improve your pension prospects, no matter what your age.

Financial Security

Can you guarantee the retirement you want?

If you're preparing for retirement then you might be wondering how much your pension needs to be worth to achieve financial security.

This will depend on a number of factors, such as the age you want to retire, the lifestyle you want to enjoy, the other assets you have to support you, and your overall standard of health.

A good starting point is your annual expenditure multiplied by 25.

This means that a modest standard of living might require a pension pot of £375,000, but a more generous lifestyle might need £500,000.

We can start to deduct other income (such as the state pension) which will take the burden off your own pension fund - this is where sophisticated cash flow forecasting can help you get to a more accurate figure.

If you have several pension plans with different providers or from different jobs, you may find consolidating helps give you a better idea of where you stand.

Saving

> *Saving earlier often gives greater benefit, the money you save now could be supporting you in your 80s or 90s.*

Is it too late to save for retirement?

Certainly not! In fact, saving into a pension is perfectly normal for those in their 50s, 60s and even 70s.

There are lots of benefits of using a pension to save for retirement regardless of your age, but those over 55 have the added benefit of knowing they can access their fund at any time.

Although saving earlier often gives greater benefit, the money you save now could be supporting you in your 80s or 90s. That’s exactly the same as saving in your 20s for retirement in your 50s.

Can you retire at 50?

Firstly, pensions can generally only be accessed from age 55 and this is rising to 57 in future. You might need to fund seven years’ of expenditure without being able to touch your pension, so what size are your ISAs or what other assets can support you?

If you retire at 50 then most people will need to save for over 30 years of retirement in less than 30 years of work. This will be a stretch for many and may reduce your standard of living to something you’re not comfortable with.

Lastly, what do you plan to do with your time? Statistics show that happier people live longer, so decades of retirement with limited income is unlikely to be the best choice.

Retire at 50

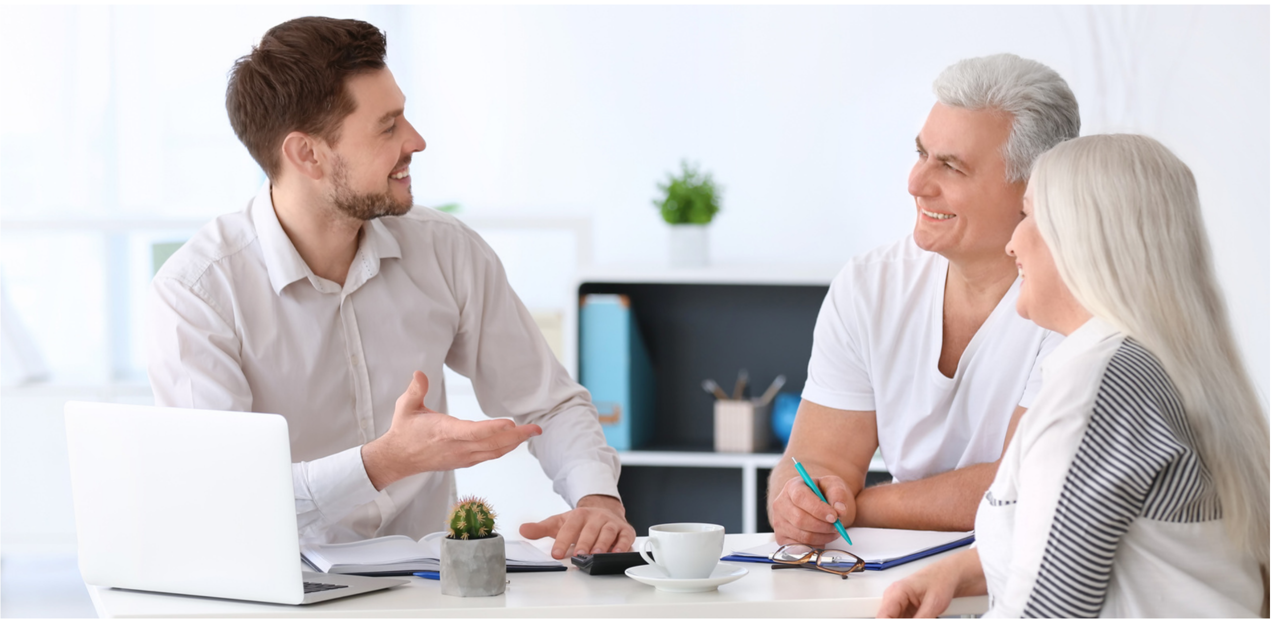
> *For some people, retiring at 50 will be the ultimate dream. But is it feasible? And if you decide you want to do this, what do you need to consider?*

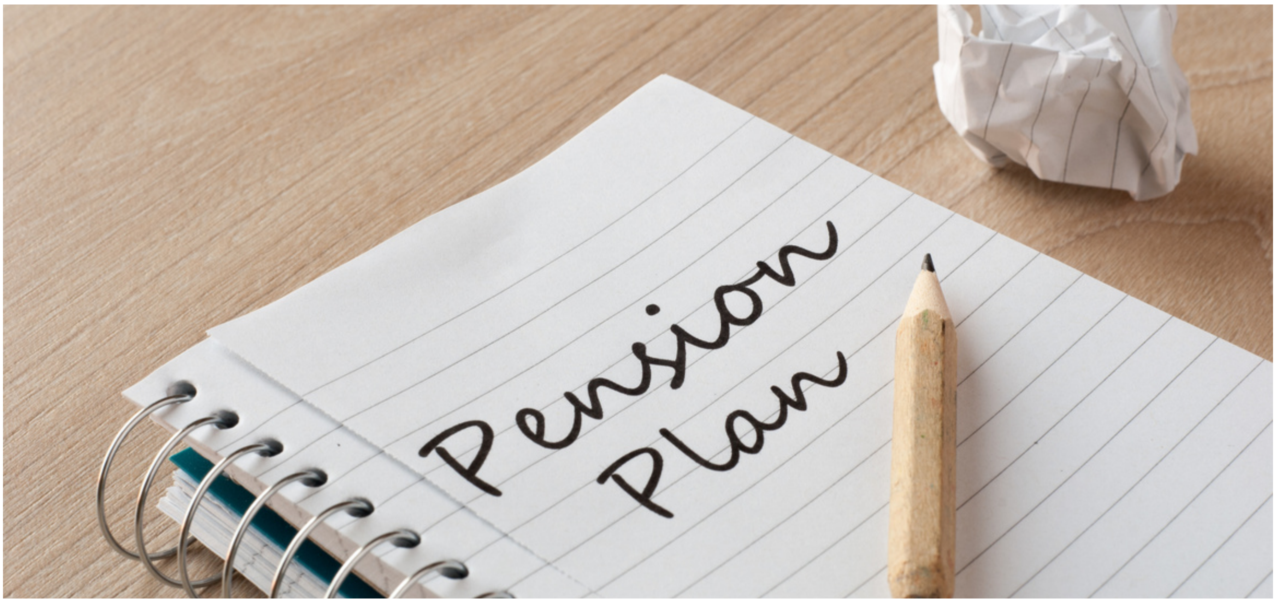
Personal pension schemes

If you are not in a good employer pension scheme, you should make your own pension arrangements. If you are a higher rate taxpayer, your investment will, subject to limits, qualify for tax relief at 40%. The limits are the greater of £3,600 or your UK relevant earnings. The overriding annual allowance for most people is currently £40,000, however, those with adjusted income over £240,000 may have their annual allowance tapered down to a minimum of £4,000. A £4,000 limit may apply where money purchase pensions are accessed.

Pension input exceeding the annual allowance may be subject to a tax charge. Where premiums paid in the pension input periods ending in the preceding three years are less than the annual allowance for those years, unused relief may be carried forward.

For both employer and personal pensions, there is a limit on the tax-privileged benefits that can be drawn. The value of any authorised benefits paid out in excess of their allowance is subject to a tax charge known as the lifetime allowance charge. The standard lifetime allowance is £1,073,100 in 2021/22.





Employer pension schemes

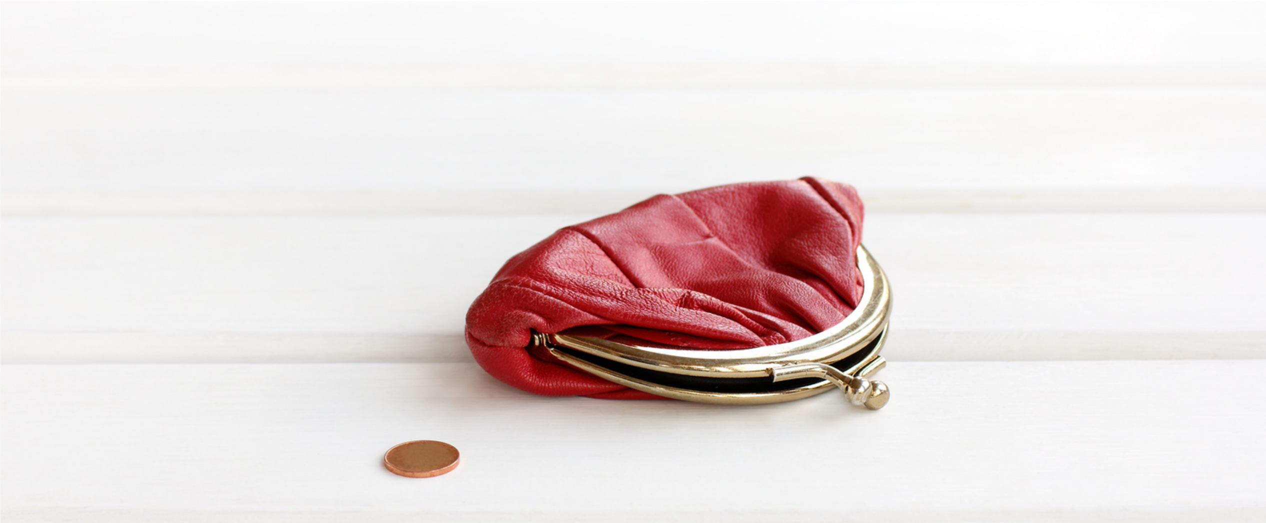
There are two kinds of company pension scheme, into which you and your employer may make contributions. A defined benefit scheme pays a retirement income related to the amount of your earnings, while a defined contribution scheme reflects the amount invested and the investment fund performance.

All employers are now required to automatically enrol eligible workers into a qualifying pension scheme. From 6 April 2019 onwards, a minimum overall contribution rate of 8% of each employee's qualifying earnings applies, of which at least 3% must come from the employer. The balance is made up of employees' contributions and tax relief.

The state pension

Eligibility for a state pension depends on an individual's national insurance contribution (NIC) record. Individuals who reach state pension age after 6 April 2016 will receive a flat-rate pension, worth potentially no less than £179.60 per week (2021/22).

Those who reached state pension age before 6 April 2016 will continue to claim their basic state pension (plus any additional state pension that they may be entitled to). Nearly everyone reaching state pension age in the next few years will be subject to complex transitional provisions which take account of their contribution record prior to 6 April 2016.



A pension shortfall

Many people are heading towards retirement with inadequate savings, and many even have significant debts. We are living longer - for those nearing retirement, the changes in life expectancy over the years could have an impact on how long your retirement funds last.

You could spend a third of your life as a retired person. For many, the whole picture adds up to a pensions shortfall. However, by taking action now you can help to make this period as financially secure as possible.

Have you though about...

- what age you would like to retire?
- what your current living expenses are and will they be the same in retirement?
- what debts you have and what they will look like in retirement?
- how much things like holidays and hobbies are likely to cost?
- hunds to help children or grandchildren in the future?
- how much you need to save for retirement
- how to save tax-efficiently for retirement
- how much income you expect from your pensions?

Your business

At some point in time, you will dispose of your business interests and invest the proceeds. While this may be some years away, at some point you will wish to realise its capital value. Maximising this value and paying the minimum in capital taxes, for example by making full use of Business Asset Disposal Relief (formerly known as Entrepreneurs' Relief) and thus paying only 10% tax on the profit (up to a lifetime limit of £1m for disposals in 2021/22), is an important goal.

ISAs

Income earned on investments within an ISA is exempt from income tax. Gains made on ISA investments are also exempt from capital gains tax. The maximum annual deposit is £20,000.

The Lifetime ISA provides another way of saving for retirement. The accounts are available to any adult under the age of 40, and individuals can deposit up to £4,000 from their annual maximum ISA allowance each tax year. Savers will receive a 25% bonus from the government for every pound they put in, up to the age of 50. Various rules apply.

Wills

Having a valid and up-to-date Will in place will not only ensure your estate is as tax-efficient as possible, but that your wishes are followed after your death.

> *Make the most of other planning options*

Your home

Although they might not be suitable for everyone, there are at least two ways to make your home boost your retirement finances. The first is downsizing – selling your current home and buying something cheaper to release value now tied up in your property for other purposes.

Alternatively, if you wish to continue living in the same property, 'equity release' might also be something to consider, but only in your later years.

Equity release might not suit all families, and you need to discuss all the implications with us and your other financial advisers.

Other sources

Savings insurance policies, property and valuables such as art or collections could all be taken into account when developing a retirement strategy.

Retirement planning checklist

Why not complete this checklist, and then make arrangements to discuss your retirement plans with us? We can use this as a starting point, to help you create a strategy to realise your retirement aspirations.

Do you have a retirement plan in place?

Yes ☐ (date last reviewed: ____)

No ☐ but I would like to develop one ☐

Do you have a valid Will?

Yes ☐ (date last reviewed: ____)

Does it reflect your current wishes and potential change in circumstances?

Yes ☐

No ☐ but I would like to review it ☐

No ☐ but I would like to develop one ☐

My primary retirement goals are to:

Live independently where I want ☐ Travel frequently ☐

Buy and enjoy the things I want ☐ Minimise taxes ☐

Help my children and their heirs ☐ Pursue hobbies and interests ☐

Other ____

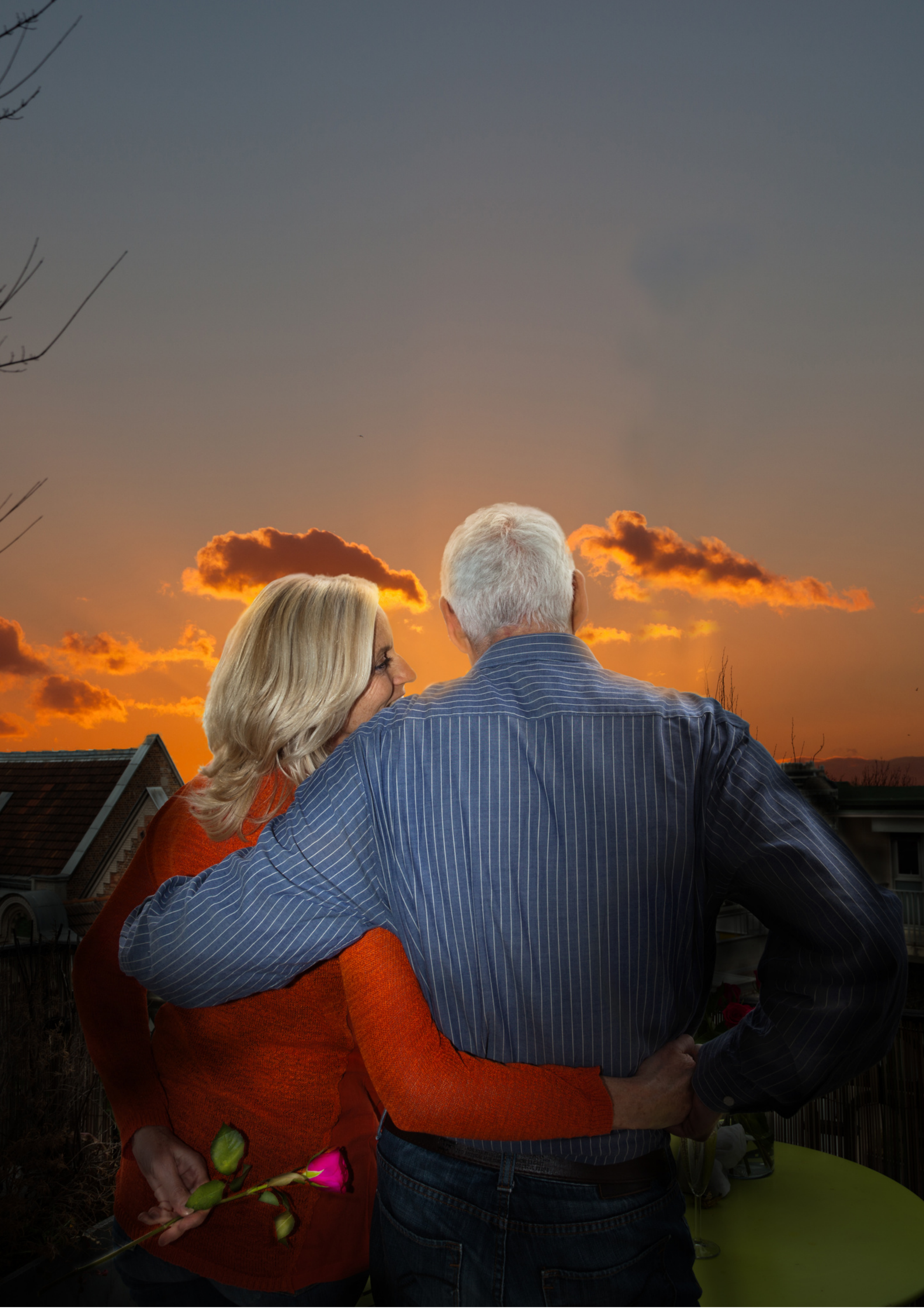
My current retirement resources include:

Pension plans ☐ Wills ☐

ISAs, stocks and shares ☐ Insurance policies ☐

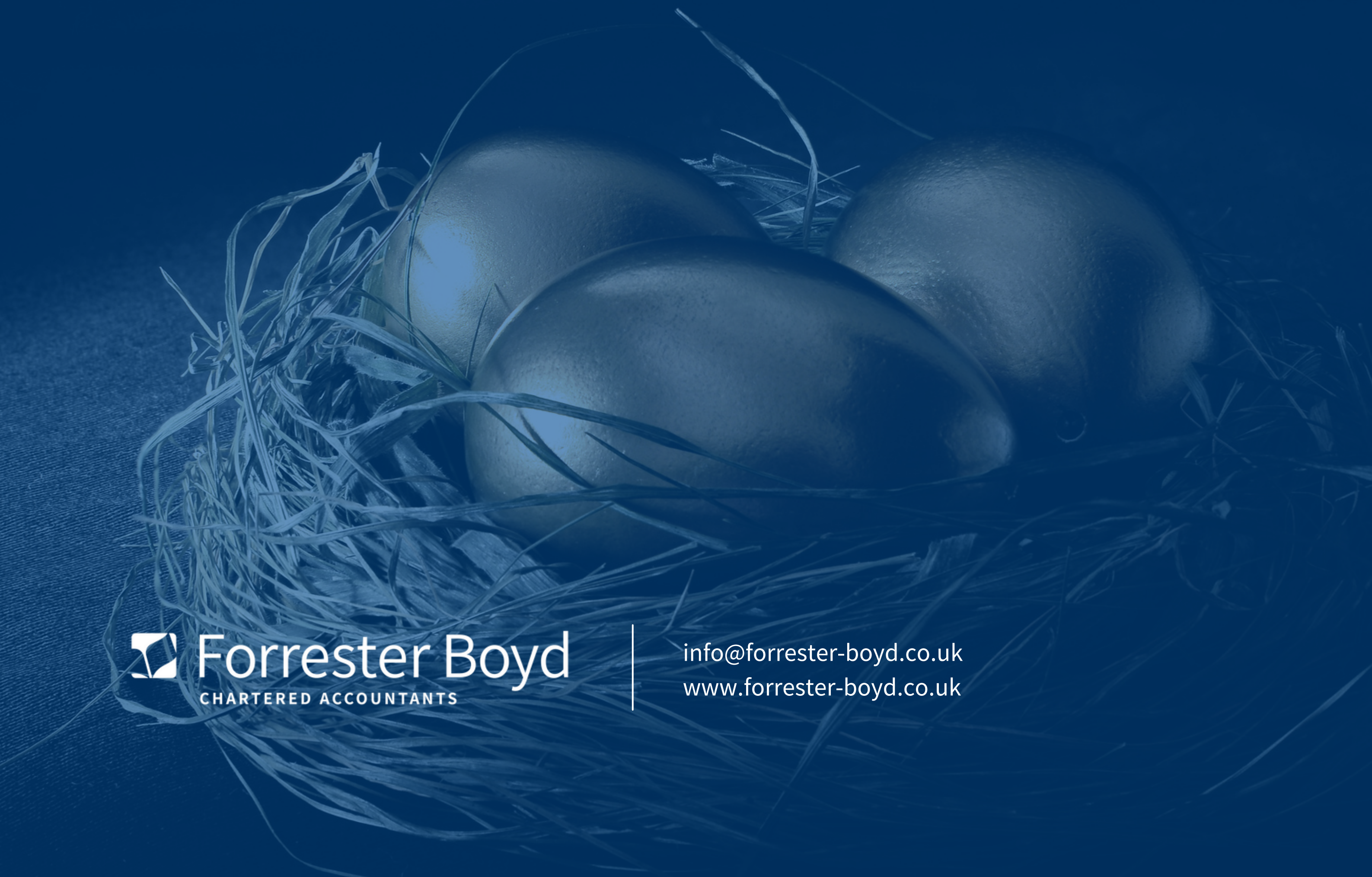
Art, collections and other valuables ☐ Savings ☐

Other assets ____



For information of users

Date of publication: May 2022



Forrester Boyd
CHARTERED ACCOUNTANTS

info@forrester-boyd.co.uk
www.forrester-boyd.co.uk

Grimsby :	**01472 350601**
Louth :	**01507 606111**
Scunthorpe :	**01724 863105**
Skegness :	**01754 761777**
Beverley :	**01482 889400**
Hull :	**01482 889400**